

# QUARTERLY REPORT

TRADING NAME OF LICENSEE:

Marina District Development Company, LLC and Subsidiary  
(Borgata Hotel Casino & Spa)

For The Quarter Ended March 31, 2005

TO THE  
CASINO CONTROL COMMISSION  
OF THE  
STATE OF NEW JERSEY

## LIST OF FORMS

### TRADING NAME OF LICENSEE:

Marina District Development Company, LLC and Subsidiary  
(Borgata Hotel Casino & Spa)

For The Quarter Ended March 31, 2005

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Amended

**BALANCE SHEETS - Revised**

8/16/05

AS OF MARCH 31, 2005 AND 2004

(UNAUDITED)  
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2005 (c)	2004 (d)
	<b>ASSETS</b>		
	Current Assets:		
1	Cash and Cash Equivalents.....	\$ 29,590	\$ 20,002
2	Short-Term Investments.....	-	-
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2005, \$7,183; 2004, \$5,265)..... Note 3	42,667	17,585
4	Inventories.....	2,802	2,054
5	Prepaid Expenses and Other Current Assets.....	4,539	4,865
6	Total Current Assets.....	79,598	44,506
7	Investments, Advances, and Receivables.....	2,699	2,699
8	Property and Equipment - Gross.....	1,050,761	1,022,634
9	Less: Accumulated Depreciation and Amortization.....	(92,590)	(40,505)
10	Property and Equipment - Net.....	958,171	982,129
11	Other Assets.....	11,576	17,650
12	Total Assets.....	\$ 1,052,044	\$ 1,046,984
	<b>LIABILITIES AND EQUITY</b>		
	Current Liabilities:		
13	Accounts Payable.....	\$ 7,316	\$ 3,753
14	Notes Payable.....	-	-
	Current Portion of Long-Term Debt:		
15	Due to Affiliates.....	-	-
16	Other..... Note 7	2,000	51,875
17	Income Taxes Payable and Accrued.....	5,274	777
18	Other Accrued Expenses..... Note 4,9	46,984	44,926
19	Other Current Liabilities..... Note 5,6	11,188	7,592
20	Total Current Liabilities.....	72,762	108,923
	Long-Term Debt:		
21	Due to Affiliates.....	-	-
22	Other..... Note 7	384,200	521,437
23	Deferred Credits.....	1,716	-
24	Other Liabilities..... Note 8	7,253	16,222
25	Commitments and Contingencies		
26	Total Liabilities.....	465,931	646,582
27	Stockholders', Partners', or Proprietor's Equity..... Note 2	586,113	400,402
28	Total Liabilities and Equity.....	\$ 1,052,044	\$ 1,046,984

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

# STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004

(UNAUDITED)  
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2005 (c)	2004 (d)
	Revenue:		
1	Casino.....	\$ 162,054	\$ 140,204
2	Rooms.....	20,233	18,704
3	Food and Beverage.....	28,061	26,886
4	Other.....	5,217	4,839
5	Total Revenue.....	215,565	190,633
6	Less: Promotional Allowances.....	43,431	44,744
7	Net Revenue.....	172,134	145,889
	Costs and Expenses:		
8	Cost of Goods and Services.....	90,616	84,347
9	Selling, General, and Administrative..... Note 6,9	22,438	16,943
10	Provision for Doubtful Accounts..... Note 3.....	193	2,704
11	Total Costs and Expenses.....	113,247	103,994
12	Gross Operating Profit.....	58,887	41,895
13	Depreciation and Amortization.....	13,373	13,817
	Charges from Affiliates Other than Interest:		
14	Management Fees.....	-	-
15	Other.....	-	-
16	Income (Loss) from Operations.....	45,514	28,078
	Other Income (Expenses):		
17	Interest (Expense) - Affiliates.....	-	-
18	Interest (Expense) - External..... Note 7,8.....	(6,408)	(10,078)
19	Investment Alternative Tax and Related Income (Expense) - Net.....	(2,049)	(1,790)
20	Nonoperating Income (Expense) - Net.....	468	(378)
21	Total Other Income (Expenses).....	(7,989)	(12,246)
22	Income (Loss) Before Income Taxes and Extraordinary Items.....	37,525	15,832
23	Provision (Credit) for Income Taxes..... Note 9 .....	(409)	2,465
24	Income (Loss) Before Extraordinary Items.....	37,934	13,367
	Extraordinary Items (Net of Income Taxes -		
25	2004, \$0; 2004, \$0).....	-	-
26	Net Income (Loss).....	\$ 37,934	\$ 13,367

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

# STATEMENTS OF CHANGES IN PARTNERS' OR PROPRIETOR'S EQUITY

FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND THE TWELVE MONTHS ENDED DECEMBER 31, 2004

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Contributed Capital (c)	Accumulated Earnings (Deficit) (d)	Accumulated Other Comprehensive Income (Loss) (e)	Total Equity (Deficit) (f)
1	Balance, December 31, 2003.....	\$ 446,700	\$ (45,377)	\$ (15,141)	\$ 386,182
2	Net Income (Loss) - 2004.....	-	133,465	-	133,465
3	Capital Contributions.....	30,807	-	-	30,807
4	Capital Withdrawals.....	-	-	-	-
5	Partnership Distributions.....	-	-	-	-
6	Prior Period Adjustments.....	-	-	-	-
7	Other Comprehensive Income, net.....	-	-	9,287	9,287
8	.....	-	-	-	-
9	.....	-	-	-	-
10	Balance, December 31, 2004.....	477,507	88,088	(5,854)	559,741
11	Net Income (Loss) - 2005.....	-	37,934	-	37,934
12	Capital Contributions.....	-	-	-	-
13	Capital Withdrawals.....	-	-	-	-
14	Partnership Distributions.....	-	(13,444)	-	(13,444)
15	Prior Period Adjustments.....	-	-	-	-
16	Other Comprehensive Income, net.....Note 8.	-	-	1,882	1,882
17	.....	-	-	-	-
18	.....	-	-	-	-
19	Balance, March 31, 2005.....	\$ 477,507	\$ 112,578	\$ (3,972)	\$ 586,113

*Marina District Development Company is a limited liability company and therefore is treated as a partnership.*

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

**STATEMENTS OF CASH FLOWS**

FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004

(UNAUDITED)  
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2005 (c)	2004 (d)
1	NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES.....	\$ 55,927	\$ 28,853
	CASH FLOWS FROM INVESTING ACTIVITIES:		
2	Purchase of Short-Term Investment Securities.....	-	-
3	Proceeds from the Sale of Short-Term Investment Securities.....	-	-
4	Cash Outflows for Property and Equipment.....	(11,060)	(1,008)
5	Proceeds from Disposition of Property and Equipment.....	-	-
6	Purchase of Casino Reinvestment Obligations.....	-	-
7	Purchase of Other Investments and Loans/Advances made.....	-	-
8	Proceeds from Disposal of Investments and Collection of Advances and Long-Term Receivables.....	-	-
9	Cash Outflows to Acquire Business Entities.....	-	-
10	.....	-	-
11	.....	-	-
12	Net Cash Provided (Used) By Investing Activities.....	(11,060)	(1,008)
	CASH FLOWS FROM FINANCING ACTIVITIES:		
13	Cash Proceeds from Issuance of Short-Term Debt.....	-	-
14	Payments to Settle Short-Term Debt.....	-	-
15	Cash Proceeds from Issuance of Long-Term Debt.....	106,400	96,900
16	Costs of Issuing Debt.....	-	-
17	Payments to Settle Long-Term Debt.....	(145,800)	(129,744)
18	Cash Proceeds from Issuing Stock or Capital Contributions.....	-	-
19	Purchases of Treasury Stock.....	-	-
20	Payments of Dividends or Capital Withdrawals.....	-	-
21	Partnership Distributions.....	(13,444)	-
22	.....	-	-
23	Net Cash Provided (Used) By Financing Activities.....	(52,844)	(32,844)
24	Net Increase (Decrease) in Cash and Cash Equivalents.....	(7,977)	(4,999)
25	Cash and Cash Equivalents at Beginning of Period.....	37,567	25,001
26	Cash and Cash Equivalents at End of Period.....	\$ 29,590	\$ 20,002
	CASH PAID DURING PERIOD FOR:		
27	Interest (Net of Amount Capitalized).....	\$ 9,639	\$ 9,071
28	Income Taxes, net of refunds.....	\$ (8,346)	\$ 1,300

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

# STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004

(UNAUDITED)  
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2005 (c)	2004 (d)
	NET CASH FLOWS FROM OPERATING ACTIVITIES:		
29	Net Income (Loss).....	\$ 37,934	\$ 13,367
	Noncash Items Included in Income and Cash Items Excluded from Income:		
30	Depreciation and Amortization of Property and Equipment.....	13,353	12,137
31	Amortization of Other Assets.....	512	1,680
32	Amortization of Debt Discount or Premium.....	-	-
33	Deferred Income Taxes - Current.....	-	-
34	Deferred Income Taxes - Noncurrent.....	-	-
35	(Gain) Loss on Disposition of Property and Equipment.....	(3)	-
36	(Gain) Loss on Casino Reinvestment Obligations.....	2,049	1,790
37	(Gain) Loss from Other Investment Activities.....	-	-
	Net (Increase) Decrease in Receivables and Patrons'		
38	Checks.....	4,581	(31)
39	Net (Increase) Decrease in Inventories.....	184	167
40	Net (Increase) Decrease in Other Current Assets.....	760	(89)
41	Net (Increase) Decrease in Other Assets.....	(226)	98
42	Net Increase (Decrease) in Accounts Payable.....	(187)	(2,929)
	Net Increase (Decrease) in Other Current Liabilities		
43	Excluding Debt.....	(4,281)	1,970
	Net Increase (Decrease) in Other Noncurrent Liabilities		
44	Excluding Debt.....	1,677	311
45	Net Loss (Gain) on Derivative Financial Instruments.....	(426)	382
46		-	-
47	Net Cash Provided (Used) By Operating Activities.....	\$ 55,927	\$ 28,853

## SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	ACQUISITION OF PROPERTY AND EQUIPMENT:		
48	Additions to Property and Equipment.....	\$ (11,060)	\$ (1,008)
49	Less: Capital Lease Obligations Incurred.....	-	-
50	Cash Outflows for Property and Equipment.....	\$ (11,060)	\$ (1,008)
	ACQUISITION OF BUSINESS ENTITIES:		
51	Property and Equipment Acquired.....	\$ -	\$ -
52	Goodwill Acquired.....	-	-
	Net Assets Acquired Other than Cash, Goodwill, and		
53	Property and Equipment.....	-	-
54	Long-Term Debt Assumed.....	-	-
55	Issuance of Stock or Capital Invested.....	-	-
56	Cash Outflows to Acquire Business Entities.....	\$ -	\$ -
	STOCK ISSUED OR CAPITAL CONTRIBUTIONS:		
57	Total Issuances of Stock or Capital Contributions.....	\$ -	\$ -
58	Less: Issuances to Settle Long-Term Debt.....	-	-
59	Consideration in Acquisition of Business Entities.....	-	-
60	Cash Proceeds from Issuing Stock or Capital Contributions.....	\$ -	\$ -

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

## SCHEDULE OF PROMOTIONAL EXPENSES AND ALLOWANCES

(\$ IN THOUSANDS)

FOR THE THREE MONTHS ENDED MARCH 31, 2005

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	102,075	\$ 12,582		
2	Food	456,895	9,357	138,368	1,384
3	Beverage	1,395,853	4,536		
4	Travel			5,775	1,444
5	Bus Program Cash				
6	Other Cash Complimentaries	615,932	15,398		
7	Entertainment	17,789	712	1,306	130
8	Retail & Non-Cash Gifts			12,952	3,238
9	Parking				
10	Other*	32,201	846	958,173	862
11	Total	2,620,745	\$ 43,431	1,116,574	\$ 7,058

\* Promotional Allowances - Other includes \$368 of comp dollars and slot dollars earned but not redeemed.

\* Promotional Expenses - Other includes \$862 of comp taxes.

FOR THE THREE MONTHS ENDED MARCH 31, 2005

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
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# Marina District Development Company, LLC and Subsidiary

(A Wholly-Owned Subsidiary of Marina District Development Holding Co., LLC)

## Notes to Condensed Consolidated Financial Statements (Unaudited)

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### Note 1. Summary of Significant Accounting Policies

#### *Basis of Presentation*

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of Marina District Development Company, LLC, d.b.a. Borgata, ("MDDC, LLC") and Marina District Finance Company, Inc. ("MDFC"), its wholly-owned subsidiary, collectively referred to herein as the "Company", "We", or "Us". The Company is a wholly-owned subsidiary of Marina District Development Holding Co., LLC ("Holding Company" or "Parent"). Holding Company is jointly owned by MAC, Corp. ("MAC"), a wholly-owned subsidiary of MGM MIRAGE, and Boyd Atlantic City, Inc. ("BAC"), a wholly-owned subsidiary of Boyd Gaming Corporation. Our purpose is to develop, own, and operate a hotel casino and spa facility at Renaissance Pointe in Atlantic City, New Jersey. We opened Borgata on July 3, 2003 with approximately 2,000 hotel rooms, a 125,000 square foot casino, and other amenities.

In 2004, Boyd Gaming Corporation announced two major expansions of Borgata. The first expansion ("Public Space Expansion") is a project with an estimated cost of \$200,000,000 and the second expansion ("Rooms Expansion") is a project in the conceptual design phase with a cost to be determined and requires various government and regulatory approvals. The Public Space Expansion consists of substantial additions of both gaming and non-gaming amenities to be built on a portion of the existing surface parking lot. The centerpiece of the Rooms Expansion is a new hotel tower, containing approximately 800 rooms and suites, to be built on a portion of the existing surface parking lot, near the existing porte cochere. In addition to the hotel, which will have an arrival and identity separate from our existing hotel tower, the Rooms Expansion will include a new spa and additional meeting room space. Access to our existing facilities and the Public Space Expansion amenities is intended to be seamless and convenient. The Public Space Expansion construction commenced in December 2004 with expected completion to occur in the second quarter 2006. The Rooms Expansion construction is expected to begin during the fourth quarter of 2005 and is scheduled for completion in the fourth quarter of 2007. Boyd Gaming Corporation and MGM MIRAGE have approved both projects, which will be built on land leased from MGM MIRAGE. BAC and MAC do not expect to make further capital contributions to us for the expansion projects as we expect to finance the projects from our cash flow and from our recently refinanced bank credit facility, which is capable of being expanded.

Pursuant to the Joint Venture Agreement (the "JV Agreement"), BAC, as the managing venturer of the Holding Company, has oversight responsibility for the management of Borgata which includes the design, development, and construction as well as the day to day operations. We do not record a management fee to BAC as our management team directly performs these services or negotiates contracts to provide for these services. As a result, the costs of these services are directly borne by the Company and are reflected in our accompanying condensed consolidated financial statements.

In our opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the results of our operations and cash flows for the three months ended March 31, 2005 and 2004. We suggest reading this report in conjunction with our audited consolidated financial statements for the year ended December 31, 2004. Our operating results and cash flows for the three months ended March 31, 2005 and 2004 are not necessarily indicative of the results that will be achieved for the full year or future periods.

### *Capitalized Interest*

Interest costs incurred during the expansion of the facility, which include commitment fees, letter of credit fees and the amortized portion of deferred loan origination fees, are capitalized and included in property and equipment on the accompanying condensed consolidated balance sheets. Capitalization of interest related to the Public Space Expansion commenced in December 2004, when construction began. Capitalized interest for the three months ended March 31, 2005 was \$93,000.

### *Income Taxes*

Our Parent and we are treated as a partnership for federal income tax purposes; therefore, federal income taxes are the responsibility of MAC and BAC. In New Jersey, casino partnerships are subject to state income taxes under the Casino Control Act, therefore, we are required to record New Jersey state income taxes. In 2004, we were granted permission by New Jersey, pursuant to a ruling request, to file a consolidated New Jersey corporation business tax return with MAC and BAC. Pursuant to a Tax Sharing Agreement, we have agreed with MAC and BAC that our tax liability will be based upon our stand-alone separate activity, as reflected in our condensed consolidated financial statements.

While we are not subject to federal income tax, the JV Agreement and our bank credit agreement provide for distributions to MAC and BAC for payments of income taxes. On February 15, 2005, equal distributions were made to MAC and BAC totaling \$13,444,000.

### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, or GAAP, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and notes. Significant estimates incorporated into our accompanying condensed consolidated financial statements include the estimated useful lives for depreciable and amortizable assets, the estimated allowance for doubtful accounts receivable, estimated valuation allowance for deferred tax assets, the estimate for available tax credits, the estimated liabilities for our self-insured medical plan, slot club programs, and litigation, claims and assessments. Actual results could differ from those estimates and assumptions.

### *Derivative Financial Instruments and Other Comprehensive Income*

GAAP requires all derivatives to be recognized on the balance sheet at fair value. Derivatives that are not designated as hedges must be adjusted to fair value through income. For derivatives designated as a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of the hedged item through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion

of a derivative's change in fair value is immediately recognized in earnings. For further information please see Note 8.

Amended

8/16/05

## Note 2. Capital Contributions

The components of cash and non-cash equity contributions consist of the following:

	March 31, 2005	March 31, 2004
Cash	\$ 386,074,000	\$ 355,267,000
Land	87,301,000	87,301,000
Special Revenue Bonds	2,699,000	2,699,000
Other	1,433,000	1,433,000
<b>Capital contributions</b>	<b>\$ 477,507,000</b>	<b>\$ 446,700,000</b>

## Note 3. Receivables and Patrons' Checks

Receivables and patrons' checks consist of the following:

	March 31, 2005	March 31, 2004
NJ Tax Refund receivable	\$ 18,877,000	\$ 0
Casino receivables (net of an allowance for doubtful accounts, 2005, \$6,991,000 and 2004, \$4,993,000)	15,121,000	11,370,000
Other (net of an allowance for doubtful accounts, 2005, \$192,000 and 2004, \$272,000)	8,321,000	5,355,000
Due from related parties (Note 6)	348,000	860,000
<b>Receivables and patrons' checks, net</b>	<b>\$ 42,667,000</b>	<b>\$ 17,585,000</b>

## Note 4. Other Accrued Expenses

Other accrued expenses consist of the following:

	March 31, 2005	March 31, 2004
Payroll and related	\$ 21,362,000	\$ 18,499,000
Other	25,622,000	26,427,000
<b>Other accrued expenses</b>	<b>\$ 46,984,000</b>	<b>\$ 44,926,000</b>

8/16/05

**Note 5. Other Current Liabilities**

Other current liabilities consist of the following:

	March 31, 2005	March 31, 2004
Due to related parties (Note 6)	\$ 883,000	\$ 1,181,000
Other	10,305,000	6,411,000
<b>Other current liabilities</b>	<b>\$ 11,188,000</b>	<b>\$ 7,592,000</b>

**Note 6. Related Parties**

Pursuant to the Agreement, MAC is solely responsible for any investigation, analyses, clean-up, detoxification, testing, monitoring, or remediation related to Renaissance Pointe. The related amounts due from MAC for these types of expenditures incurred by us were \$319,000 and \$286,000 at March 31, 2005 and 2004, respectively. Reimbursable expenditures incurred were \$89,000 for the three months ended March 31, 2005.

Boyd Gaming Corporation reimburses us for expenses relating to investigative services for our casino license and other expenses. The related amounts incurred by us and due from Boyd Gaming Corporation for these types of expenses were \$30,000 and \$574,000 at March 31, 2005 and 2004, respectively. Reimbursable expenditures incurred were \$27,000 for three months ended March 31, 2005.

On May 20, 2002, we entered into a 75 year ground lease agreement with MAC related to our employee parking garage and on February 21, 2003, we entered into a three year ground lease agreement with MAC related to our surface parking lot. The related amounts due to MAC for these leases were \$569,000 and \$328,000 at March 31, 2005 and 2004, respectively. Related rent expense payments were \$83,000 for the three months ended March 31, 2005. Pursuant to the ground lease agreement related to the employee parking garage, we are responsible for reimbursing MAC for related property taxes paid on our behalf. Amounts reimbursed to MAC for property taxes were \$0 for the three months ended March 31, 2005.

On August 1, 2003, we entered into a one year airplane lease agreement with BAC that was cancelable by either party. On August 6, 2004, we purchased the airplane from BAC for its appraised value of \$5,750,000.

We reimburse BAC for compensation paid to employees performing services for us on a full-time basis and for out-of-pocket costs and expenses incurred related to travel. Also, Boyd Gaming Corporation is reimbursed for various payments made on our behalf primarily related to third party legal fees, investigative fees, and other costs. The related amounts due to BAC and Boyd for these types of expenditures paid by BAC were \$314,000 and \$853,000 at March 31, 2005 and 2004, respectively. Reimbursable expenditures the three months ended March 31, 2005 were \$1,217,000 which was included in the accompanying consolidated statement of operations.

The related party balances above are non-interest bearing.

## Note 7. Debt

8/16/05

Amounts outstanding under each component of our bank credit agreements are as follows:

	March 31, 2005	March 31, 2004
Term Loan (s)	\$ 199,500,000	\$ 555,312,000
Revolving line of credit	186,700,000	18,000,000
Total long-term debt	386,200,000	573,312,000
Less: current maturities	2,000,000	51,875,000
<b>Total</b>	<b>\$ 384,200,000</b>	<b>\$ 521,437,000</b>

On October 20, 2004, our First Amended and Restated credit agreement among Marina District Finance Company, Marina District Development Company, Canadian Imperial Bank of Commerce and certain other financial institutions became effective. The amended bank credit facility modified our original bank credit facility.

The amended bank credit facility consists of a \$450,000,000 revolving credit facility and a \$200,000,000 term loan and is capable of being expanded. The revolving credit facility matures in October 2009 and the term loan matures in October 2011. The term loan is required to be repaid in quarterly increments of \$500,000 commencing on March 31, 2005 continuing through September 30, 2011 at which time the remaining balance of the term loan matures on October 20, 2011. Amounts repaid under the term loan may not be reborrowed. At March 31, 2005, \$199,500,000 of borrowings were outstanding under the term loan and \$186,700,000 was outstanding under the revolving credit facility, leaving availability under the bank credit facility of \$263,300,000. The interest rate on the term loan is based upon either (i) the agent bank's quoted base rate or (ii) the eurodollar rate, plus a fixed margin. The interest rate on the revolving credit facility is based upon either (i) the agent bank's quoted base rate or (ii) the eurodollar rate, plus an applicable margin that is determined by the level of a predefined financial leverage ratio. In addition, we incur a commitment fee on the unused portion of the revolving credit facility that ranges from 0.25% to 0.5% per annum. The amended bank credit facility is secured by substantially all of our real and personal property and is non-recourse to MAC and BAC.

The amended bank credit facility contains certain financial and other covenants, including, without limitation, various covenants (i) requiring the maintenance of a fixed charge coverage ratio, (ii) establishing a maximum permitted total leverage ratio, (iii) imposing limitations on the incurrence of additional secured indebtedness, (iv) imposing limitations on the maximum permitted expansion capital expenditures during the term of the amended bank credit facility and (v) imposing restrictions on investments, dividends and certain other payments. We believe we are in compliance with these covenants as of March 31, 2005.

## Note 8. Interest Rate Protection Agreements

On March 8, 2001, we entered into several interest rate protection agreements to comply with the requirements of our original bank credit agreement at an initial cost of \$771,000. The interest rate protection agreements consist of interest rate swaps, caps and collars with a combined total initial aggregate notional amount of \$310,000,000 that commence and mature at various dates ranging

from December 2001 to December 2005. The aggregate notional amounts of the agreements at March 31, 2005 and December 31, 2004 were \$275,000,000 and \$290,000,000, respectively. The interest rate protection agreements are accounted for as derivative financial instruments in accordance with SFAS No. 133. The fair values of the derivative financial instruments at March 31, 2005 and December 31, 2004 have been recorded on the accompanying condensed consolidated balance sheets. Net interest paid or received pursuant to the derivative financial instruments is included in interest expense in the period, which is subject to capitalization during the construction period of the Public Space Expansion (see Note 1). The net effect of our interest rate swaps resulted in an increase in interest expense of \$1,675,000 and \$2,731,000, respectively, greater than the contractual rate of the underlying hedged debt for the three months ending March 31, 2005 and 2004. At March 31, 2005 and December 31, 2004, the weighted average fixed interest rates that we received were 3.1% and 2.6%, respectively, and the weighted average variable interest rates that we paid were 5.1% and 5.0%, respectively.

We are exposed to credit loss in the event of nonperformance by the counterparties to the interest rate protection agreements. However, we believe that this risk is minimized because the counterparties to the agreements are existing lenders under our bank credit facility. If we had terminated our interest rate protection agreements as of March 31, 2005, we would have paid \$3,129,000 based on quoted market values from the financial institutions holding the agreements.

The following table reports the effects of the mark to market valuations of our derivative financial instruments for the periods indicated (in thousands). The increase or decrease in fair value of certain hedges deemed to be ineffective is reported in the accompanying condensed consolidated statements of operations. For the three months ended March 31, 2005 and 2004, a net gain of \$426,000 and a net loss of \$382,000, respectively, are included on the accompanying condensed consolidated statement of operations. The increase or decrease in fair value of certain hedges deemed to be effective is reported in other comprehensive income (loss) as a component of member equity on the accompanying condensed consolidated balance sheets.

	Three Months Ended	
	March 31,	
	2005	2004
Net gain (loss) on derivative financial instruments due to ineffectiveness in certain hedges	<u>\$ 426</u>	<u>\$ (382)</u>
Derivative financial instruments market adjustment	\$ 2,070	\$ 937
Tax effect of derivative financial instruments market adjustment	<u>(188)</u>	<u>(84)</u>
Net derivative financial instruments market adjustment	<u>\$ 1,882</u>	<u>\$ 853</u>

All of our current outstanding interest rate protection agreements mature on December 31, 2005. As such, a net amount of \$1,200,000 of existing net losses reported in accumulated other comprehensive loss at March 31, 2005 will be recorded as net losses on derivative financial instruments in the condensed consolidated statement of operations by December 31, 2005 through quarterly mark to market valuations of our derivative financial instruments.

## Note 9. Commitments and Contingencies

In June 2004, Borgata and the eleven other casinos in the Atlantic City gaming market (collectively, the "Casinos") entered into a Grant and Donations Agreement ("Agreement") with the New Jersey Sports & Exposition Authority (the "NJSEA") and the Casino Reinvestment Development Authority (the "CRDA") in the interest of deferring or preventing the proliferation of competitive gaming at New Jersey racing tracks.

Under the terms of the Agreement, the Casinos shall pay to the NJSEA \$34,000,000 to be used for certain authorized purposes (the "Authorized Uses") as defined by the Agreement. The \$34,000,000 to be paid by the Casinos shall be payable over a four year period as follows: \$7,000,000 on or before October 15, 2004; \$8,000,000 on or before October 15, 2005; \$9,000,000 on or before October 15, 2006; and \$10,000,000 on or before October 15, 2007. In the event any of the \$34,000,000 is not used by NJSEA for the Authorized Uses by January 1, 2009, the unused funds shall be returned by NJSEA to the Casinos pro rata based upon the share each casino contributed. For each year, each casino's share of the \$34,000,000 will equate to a percentage representing its gross gaming revenue for the twelve months ending June 30th prior to the October 15 payment date compared to the gross gaming revenues for that period for all Casinos. The Casinos, individually and collectively, shall be responsible for the payment of all amounts due. In the event that any casino shall fail to make its payment as required, the remaining Casinos shall pay a pro rata share of the defaulted payment based upon their share of the gross gaming revenue for the period as compared to the gross gaming revenues for the period for all Casinos calculated without the gross gaming revenue of the defaulting casino. As a result, we will expense our pro rata share of the \$34,000,000, estimated to be approximately \$4,100,000 in total using our current market share of gross gaming revenue, on a straight line basis over the applicable term of the Agreement. Based upon the gross gaming revenues for all casinos for the twelve months ended June 30, 2004, our share of the \$7,000,000 paid on October 15 2004 was approximately 12.0%, or \$837,000. We recorded an expense of \$210,000 for the three month period ended March 31, 2005.

Also under the terms of the Agreement, the Casinos authorize and request that the CRDA approve donations in the aggregate amount of \$62,000,000 from the Casino's North Jersey Obligations (pursuant to the New Jersey Casino Control Act) for certain uses as defined by the Agreement. If so approved, the CRDA shall credit 100% of the donations received from each casino against that casino's obligation to purchase bonds. The donation shall provide that each casino's share of the \$62,000,000 will equate to a percentage representing its gross gaming revenue for the twelve months ended June 30, 2004 compared to the gross gaming revenues for that period for all Casinos. Each casino's respective annual donation shall be made first from uncommitted current and future funds in the North Jersey Project Fund established in accordance with the CRDA Urban Revitalization Act of that Casino and shall be credited as fulfilling said obligation on behalf of the particular casino making the payment. To the extent such North Jersey Project funds of that casino are not adequate to pay a Casino's share of the required donations, then that casino's other uncommitted current and future North Jersey Obligations shall be utilized. As a result, we will expense our pro rata share of the \$62,000,000 on a straight line basis over the applicable term of the Agreement. Based upon the gross gaming revenues for all casinos for the twelve months ended June 30, 2004, our share of the \$62,000,000 is approximately 12.0%, or \$7,400,000. We recorded an expense of \$542,000 for the three month period ended March 31, 2005. Based on current gross gaming revenue projections, we expect it will take approximately 10 to 12 years to fully fund this obligation as the third quarter of 2006 is the first quarter we are subject to fund North Jersey Obligations.

### *New Jobs Investment Tax Credit*

Because we made an investment in a new business facility that created new jobs, we are eligible for a refund under the New Jersey New Jobs Investment Tax Credit. The total tax credit available is subject to annual limitations based on both income and property tax liabilities. Our estimated total credit is approximately \$75,000,000 over a five year period subject to certain annual conditions. In February 2005, we received a refund of \$9,300,000 related to the year ended December 31, 2003 and we expect to file requests for refunds for each of the four years ending December 31, 2004 through December 31, 2007, ranging from approximately \$14,000,000 to \$ 18,000,000 per year. For the three months ended March 31, 2005, we recorded a New Jobs Investment Credit of \$4,618,000 and also incurred state income tax expense of \$3,733,000 and adjusted net profits tax of \$951,000 which were offset by an adjusted net profits tax credit of \$475,000. As a result, we recorded a net benefit from income taxes of \$409,000 on the condensed consolidated statement of operations for the three months ended March 31, 2005.



## STATEMENT OF CONFORMITY AND COMPLIANCE

1. I have examined this Quarterly Report.
2. All the information contained in this Quarterly Report has been prepared in conformity with the Casino Control Commission's Quarterly Report Instructions and Uniform Chart of Accounts.
3. To the best of my knowledge and belief, the information contained in this report is accurate.
4. To the best of my knowledge and belief, except for the deficiencies noted below, the licensee submitting this Quarterly Report, has remained in compliance with the financial stability regulations contained in N.J.A.C. 19:43-4.2(b)1-5 during the quarter.



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Signature - Ruggie Cipollini

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Vice President - Finance

Title

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7163-11

License Number

On Behalf of:  
Marina District Development Company LLC  
Casino Licensee